Kansas Health Policy Authority

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Dear Providers:

The Kansas Health Policy Authority (KHPA) would like to thank those providers -- primarily current disproportionate share hospital (DSH) recipients -- who participated in the meeting we hosted in Topeka on September 28 to discuss the future of the DSH program in Kansas. As a result of the comments received at that meeting our staff is in the process of developing recommendations for potential changes in the state's DSH program to better meet policy objectives. This memorandum summarizes a wide range of potential changes to the DSH program. A meeting to discuss this further is scheduled to be held from 1 to 4 on Dec. 18 at the Topeka Public Library, located at 1515 SW 10th in Topeka. You are welcome to submit comments prior to this meeting if you are not able to attend.

Disproportionate share funds are composed of approximately 60% federal funds and 40% state funds. The federal funds are limited in size.

The Kansas State Plan limits DSH payments to only those hospitals meeting the following criteria:

- Medicaid Inpatient Utilization Rate (MIUR): The MIUR "cliff" limits DSH eligibility to those hospitals where their MIUR is greater than the state-wide mean rate plus one standard deviation of the ratio of Medicaid days to all days. The average Medicaid utilization was 15.89% and one standard deviation was 11.43%, so any hospitals that exceeds 27.32% Medicaid utilization is eligible for DSH this year. This number is a fairly significant increase over the prior year as both the mean and the standard deviation increased this year. Hospitals only slightly below this percentage are not eligible for DSH payments.
- Low-Income Utilization Rate (LIUR): The LIUR "cliff" limits DSH eligibility to only those hospitals with ratios of low income, including Medicaid, to total income of greater than 25%. Hospitals only slightly below this percentage are not eligible for DSH payments. A copy of the DSH forms are attached which have more specific definitions for the LIUR formula.

DSH payments are calculated as follows [subject to the availability of funds]:

- For MIUR-qualifying hospitals: No less than 2.5% of the hospital's Kansas Medicaid Inpatient Payments computed based on half of the difference between the qualifier's Medicaid Inpatient Utilization and the state-wide mean Medicaid Inpatient utilization plus on standard deviation plus 2.5%.
- For LIUR-qualifying hospitals: No greater than the uncompensated cost of serving Medicaid and the uninsured (OBRA limit).

At the September 28 meeting we heard a number of promising suggestions for improving the DSH program in the state of Kansas, including:

- Expanding DSH eligibility and smoothing or eliminating the "cliff" that currently exists as hospitals transition in and out of the program. One possibility would be to utilize the DSH federal qualification guidelines of a minimum Medicaid utilization of 1% plus the provider must meet requirements related to obstetrical (OB) care. Expanding eligibility in this way could only occur in concert with a change in the payment methodology due to limited funds and the fact that one of the formulas incorporates the eligibility criteria itself. We have also included the OB form as we generally only obtain this from hospitals who are otherwise eligible for DSH. Any potential changes in the DSH program could expand eligibility – but we don't know for certain which hospitals might not qualify due to the OB limitation. We request that all hospitals return this form so that we can obtain more accurate information on DSH eligibility.
- Modify the payment methodology to ensure that the entire Federal allotment for DSH payments is expended each year.
- Clarify the purpose of DSH payments as ensuring access for Medicaid beneficiaries and the uninsured, and design the payment methodology to accomplish this purpose in an equitable and consistent manner.

These observations lead to a number of questions as we work towards updating or revamping the current methodology. We are seeking specific comments on the following subjects:

- In calculating DSH payments to qualifying hospitals, should more weight be given to unreimbursed costs of Medicaid than to those of the uninsured? Should more weight be given to inpatient versus outpatient?
- Should hospitals that bear a disproportionate share of these losses be paid a higher percentage of losses? How should more or less disproportionate hospitals be measured?
- Should hospitals with either a relative number (percentage of Medicaid to all days) or an absolute number (total number of Medicaid days) receive more DSH than hospitals with fewer relative or absolute Medicaid days?

All of these questions require hospital specific information that is not part of the cost report in order to estimate the impact of various options. We are working with the Kansas Hospital Association to use available information as a means of approximating the impact of these options at this time.

If you have any questions or wish to submit information by email, please send to Sondra.Clark@khpa.ks.gov.

Thank you for your assistance.

Sincerely

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